



# CONNECTICUT BANKERS ASSOCIATION

February 9, 2009

**To: Members of the Finance Revenue and Bonding Committee**

**From: Connecticut Bankers Association**

**Contacts: Gerry Noonan, Tom Mongellow, Fritz Conway**

**Regarding: Misc. Tax Legislation - February 9, 2009 Public Hearing**

In any economic downturn, and particularly this current recession, businesses and the banks that serve them need to be able to rely on consistent state tax structures, as these structures get incorporated into their long term business models. The Connecticut tax system has been carefully designed over the years through the legislative process. It balances the needs of tax collection while encouraging the retention and creation of jobs. The consistency of these incentives is critical to companies when determining how and whether, they will continue to conduct their businesses and locate jobs in the State. One point that experts agree on in terms of tax policy, is that predictability and consistency are critical in maintaining a stable businesses environment.

While Connecticut based banks remain well capitalized and ready to lend, they have experienced a dramatic slow down in the number of businesses requesting commercial loans. The national financial crisis along with the resultant economic recession are certainly among the major factors that have caused many of the States businesses to retrench or not move forward with previous plans. We have seen first hand the difficult economic times Connecticut businesses are in.

We believe several of the bills being heard today will harm the health of an already weakened business environment by significantly changing State tax policy, systems and incentives. Now is the time when businesses and banks need to rely on the consistent application of existing tax structures, upon which many strategic decisions have already been based. This will be especially true, when the Federal stimulus bill is passed, bringing potentially billion of dollars to the State, over the next two years. Businesses should be focusing on how to quickly put those tax dollars to work, instead of spending limited resources figuring out a new tax structure.

We have concerns about the following bills:

**S.B. No. 807 (RAISED) AN ACT CONCERNING COMBINED REPORTING FOR PURPOSES OF THE CORPORATION BUSINESS TAX** This bill would hit hardest many of the key drivers of the Connecticut economy—headquarters companies, manufacturing companies and financial services firms. Our tax policy has been crafted over time to attract these types of businesses. This bill would undo all of that progress. A minority of states use this reporting method, and most of those are in the western United States—states with much lower costs of doing business than Connecticut.

**S.B. No. 815 (RAISED) AN ACT CONCERNING A MORATORIUM ON BUSINESS TAX CREDITS and H.B. No. 6348 (RAISED) AN ACT CONCERNING CORPORATION BUSINESS TAX CREDITS.** The first bill seeks to eliminate business tax credits for two years

and the second changes the applicability of certain credits upon businesses. The Connecticut system of tax credits, are really tax incentives, which have been crafted by the legislature to encourage the retention, attraction and growth of businesses and jobs throughout the state. Connecticut should not be seen as a state that will periodically eliminate these incentives, as it will discourage existing and potential businesses from locating jobs here.

**H.B. No. 6349 (RAISED) AN ACT CONCERNING THE SALES TAX ON SERVICES.**

This bill would expand the state sales tax to apply to a broad range of products and services. As previously mentioned, now is not the time to impose additional costs structures on business. In addition, the bill as drafted would create confusion and potential litigation because of its non-specific definition of products and services.

**H.B. No. 6350 (RAISED) AN ACT ELIMINATING EXEMPTIONS FROM THE SALES AND USE TAX AND LOWERING THE RATE OF SUCH TAX.** This bill repeals many of the exemptions under our sales and use tax while minimally lowering the tax rate. Although the idea of reducing the number of exemptions and lowering the rate may seem to have merit, this bill eliminates exemptions, regardless of their purpose and without regard for the effect that elimination will have various businesses. For instance, removing the exemption for sales between affiliates would cause many corporations to rethink the possibility of locating operations in Connecticut. The prudent course of action would be to study the sales and use tax to determine if any exemptions have lost their effectiveness.

We would welcome the opportunity to work with the committee on any of these legislative proposals and thank you for the opportunity to provide this testimony to you.